

# **IAR'S INLAND EMPIRE REPORT ON BUSINESS**

**Prepared by: *The Institute of Applied Research***

at California State University, San Bernardino

**Report for September 2006**

*Sponsor: CSUSB College of Business and Public Administration*

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## **Local manufacturing sector has shifted direction after two months of decline**

According to Shel Bockman, Barbara Sirotnik, and Christen Ruiz (Co-Directors of the Institute of Applied Research) and Nick Patel (Assistant Project Coordinator), "This month's PMI (50.1) registered a substantial gain from last month's PMI (43.3). On the other hand, several of the major indices remain of concern, especially production (which is unchanged from a last month which was a weak month) and new orders which continues to register below the 50% mark. Nevertheless, this month's PMI suggests that local manufacturing sector and the local economy are growing, but at a substantially slower rate than earlier this year. Two other indications of strength are that the nation's economy is continues to be in growth mode, and commodity prices are increasing at a slower pace (thus inflationary pressures within the Inland Empire are easing somewhat for the second month in a row)."

Following are some highlights from this month's report:

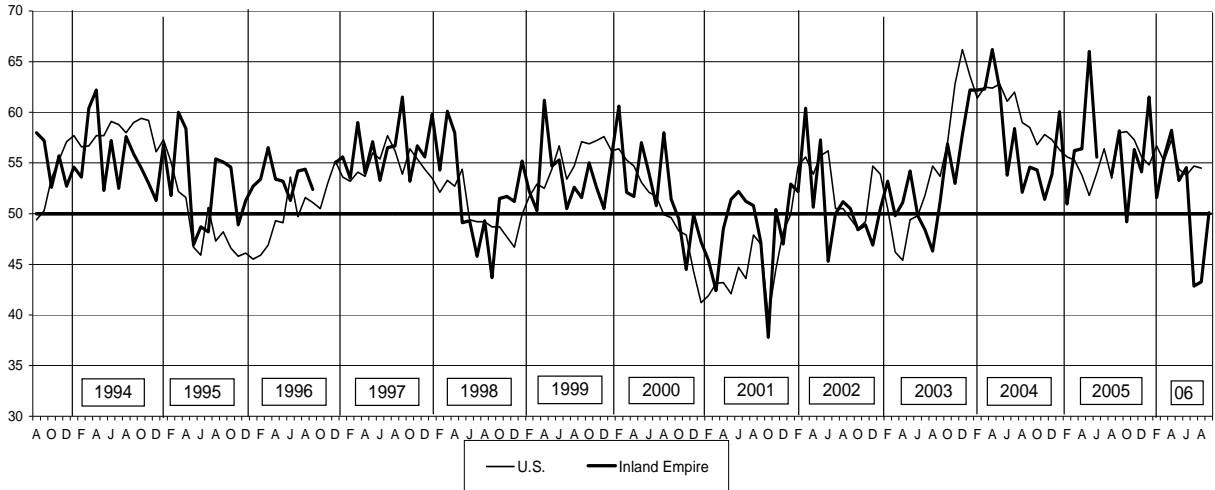
### **September 2006 Business Survey at a Glance**

	Series Index		Direction*	Rate of Change
	Last Month	This Month	From 50	From last index
Local PMI	43.3	50.1	Growing	Slower
Commodity Prices	64.8	58.7	Increasing	Slower
Production	42.6	50.0	Unchanged	Slower
New Orders	38.5	43.5	Contracting	Slower
Inventory	37.0	47.8	Contracting	Faster
Employment	40.7	50.0	Unchanged	From unchanged
Supplier Deliveries	61.5	65.2	Slowing	Faster

\* NOTE: In all cases except Supplier Deliveries, the "Direction" refers to whether the index is above 50% (growing) or below 50% (decreasing).

September's PMI (50.1) has increased from last month's figure (43.3), and suggests that the last two months of data below the 50% mark did not reflect a change of direction within the manufacturing sector.

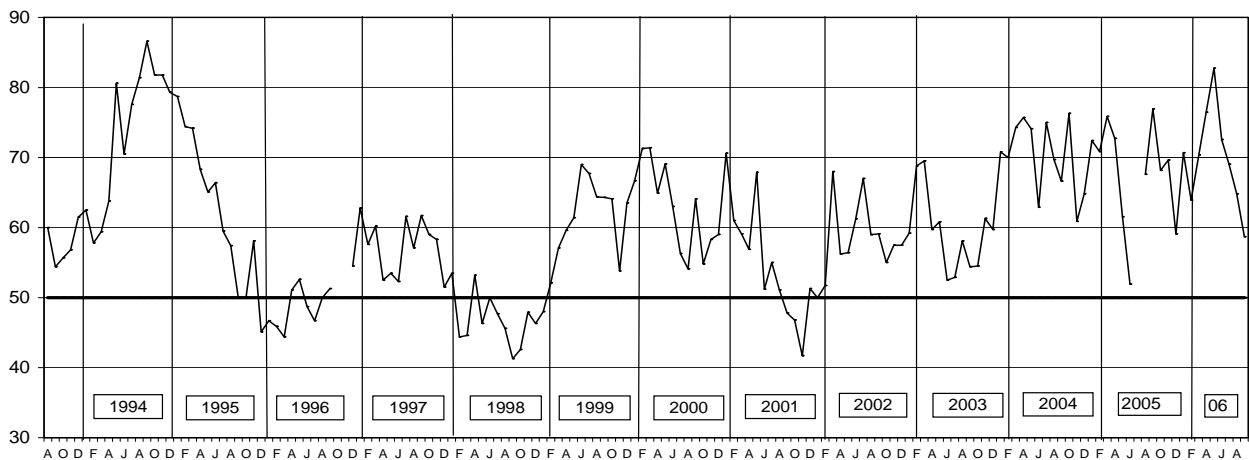
## Purchasing Managers' Index



\*\* NOTE: Inland Empire data were not collected for the months of October and November 1996, and July 2005.

September's Commodity Price Index of 58.7 decreased from last month's figure of 64.8, showing that inflationary pressures, although still present in the Riverside and San Bernardino County areas, have somewhat subsided.

## Commodity Prices



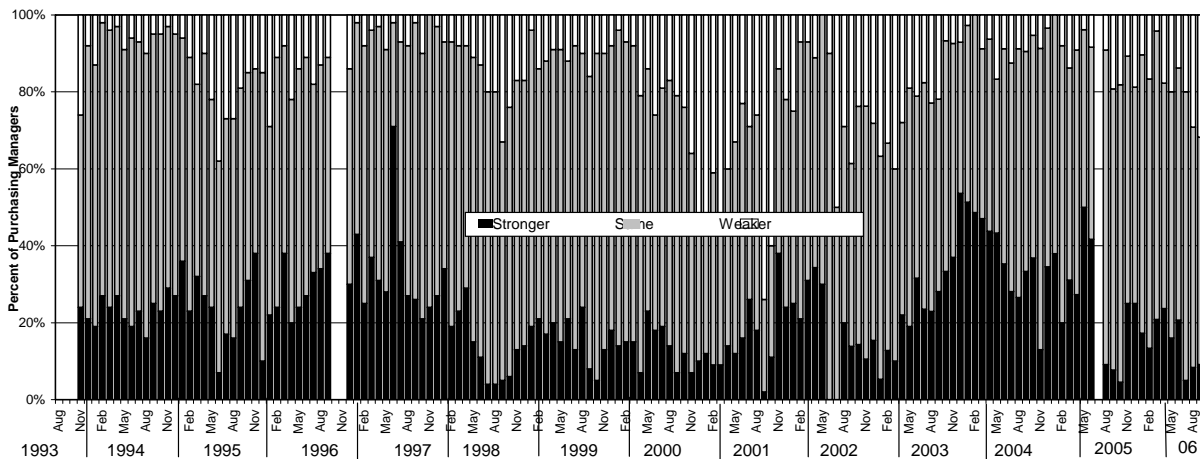
In September the Employment Index increased from 40.7 to 50.0, Production increased from 42.6 to 50.0, Inventories increased from 37.0 to 47.8, Supplier Deliveries increased from 61.5 to 65.2, and New Orders increased from 38.5 to 43.5.

Purchasing Managers continue to be less than enthusiastic about the state of the local economy. Only nine percent of purchasing manager predict that the local economy will become stronger in the upcoming months. Fifty-nine percent of purchasing managers believe the local economy will remain unchanged. Meanwhile, the remaining thirty-two percent believe the local economy will become weaker by next quarter. These figures are almost identical to those from last month.

**STATE OF THE ECONOMY: DATA FROM 9/2005 THROUGH 9/2006**

	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
<b>Weaker</b>	19	18	11	19	10	17	4	19	20	14	20	29	32
<b>Same</b>	73	77	64	56	73	70	75	56	64	65	75	63	59
<b>Stronger</b>	8	5	25	25	17	13	21	25	16	21	5	8	9

## State of the Local Economy



\*\*\* NOTE: Inland Empire data were not collected for the months of October and November, 1996 and July 2005.

When Purchasing Managers were asked to make comments on the general business conditions that affected their company, they remarked negatively: "Housing off 25% in the high desert, new starts are down," "Softer," "High commodity metal prices continue to negatively effect profit margins."

In conclusion, IAR views this report as portraying a mixed picture of the local economy. Clearly the manufacturing sector and the general economy are still growing, however there are signs of weakness.

A shift in the direction of the manufacturing sector since this month's report does not affirm the findings of the past two months. Again, we should also note that the local housing market which has been phenomenally strong over the past several years has continued to slow and this may be affecting consumer confidence and, as a result, purchasing managers' willingness to place orders for production materials. Further, this report also reaffirms the continued pessimism regarding the state of the local economy.

**FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:**

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